

WISCONSIN BUDGET BASICS GUIDE

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A Project of the Wisconsin Council on Children and Families

WISCONSIN BUDGET BASICS GUIDE

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INTRODUCTION

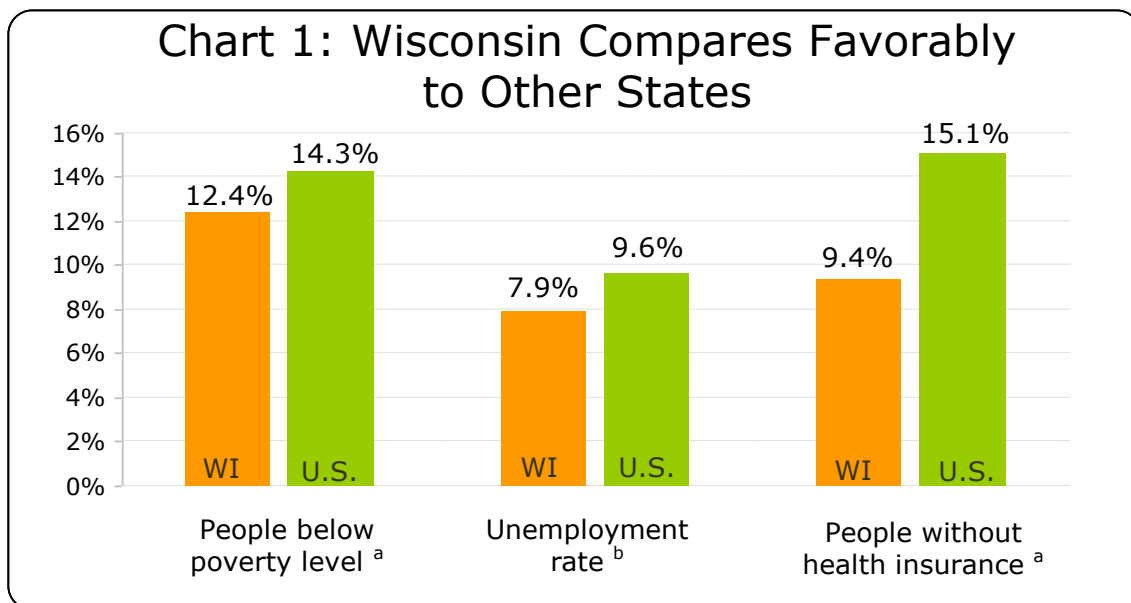
Why the State Budget Matters

Countless times a day, you are affected by state budget decisions. When you turn on the water, send your child to school, turn on a light, or drive on a road, you are impacted by state spending actions. You help pay for these and other benefits every time you buy something, get paid, or even just by owning property.

The state budget is a collection of trade-offs. The budget must be balanced; the state can only spend as much money as it collects through taxes, fees and other sources. That means priorities must be weighed against each other. Ideally, the state budget is a reflection of our public priorities. Do we, as a state, value our tradition of emphasis on public education and infrastructure, and are we willing to fund those services? Or do we value lower revenue from individuals and corporations even if it means minimal community assistance for our children, seniors and working families?

Wisconsin: Doing More with Less Since 1848

Wisconsin continually ranks among the nation's most livable states. Wisconsin is ranked 3rd highest in ACT scores,¹ tied for 3rd lowest in teen dropout rate,² as 8th smartest state,³ 10th lowest in percent of elderly population in poverty,⁴ and as 12th healthiest state.⁵ Our overall poverty rate and unemployment rate are below average, as shown in Chart 1. And Wisconsin has one of the nation's lowest percentages of people without health insurance.



^a U.S. Census Bureau, 2009. ^b U.S. Department of Labor, August 2010.

¹ ACT, based on scores for states testing 50% or more of their high school graduates, 2010.

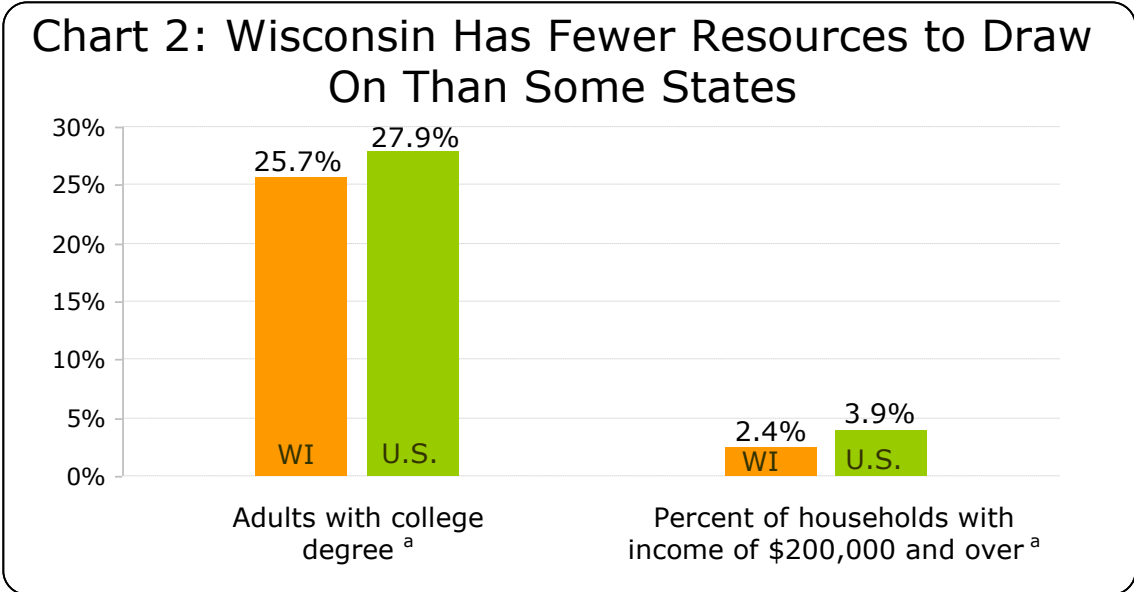
² Annie E. Casey Foundation Kids Count Data Center, 2009 data.

³ Morgan Quitno rating of states based on 21 factors related to education, 2006-07.

⁴ U.S. Census Bureau, 2009.

⁵ United Health Foundation rating of states based on 22 indicators of health, 2009.

Yet we do all this with relatively few state resources. Wisconsin doesn't have revenue from oil or gas like some states, and we don't have a New York City or a Disney World within our borders to bring in lots of tourism dollars. Chart 2 shows that the percentage of adults with a college degree in Wisconsin is below the national average, as is the percentage of households in our state with an income of \$200,000 or more. Personal income per capita in Wisconsin is 6% lower than the national average.⁶ In addition, Milwaukee is one of the country's poorest big cities.



^a U.S. Census Bureau, 2009.

How do we do it? How have we as a state been able to secure a high standard of living for ourselves using relatively few resources? Wisconsin has a history of innovation in education, health care, and service delivery. We can see the results today. This innovation should be continued and adequately funded. The state budget is one of the most important methods we have for insuring that Wisconsin continues to thrive.

As with any budget, there is revenue coming in and money being spent. Ideally, revenues are at least as great as spending, although that's not always the case. Let's first look at revenue sources.

⁶ U.S. Department of Commerce, Bureau of Economic Analysis, 2009.

Revenue

Where Does the State Get Its Money?

Each year, the state of Wisconsin takes in and spends about \$33 billion. Depending on the source of the revenue, there are some restrictions on how it may be used. Chart 3 shows the main sources of revenue as a percentage of total state revenue.

Chart 3: Revenue Sources for the 2009-11 Budget

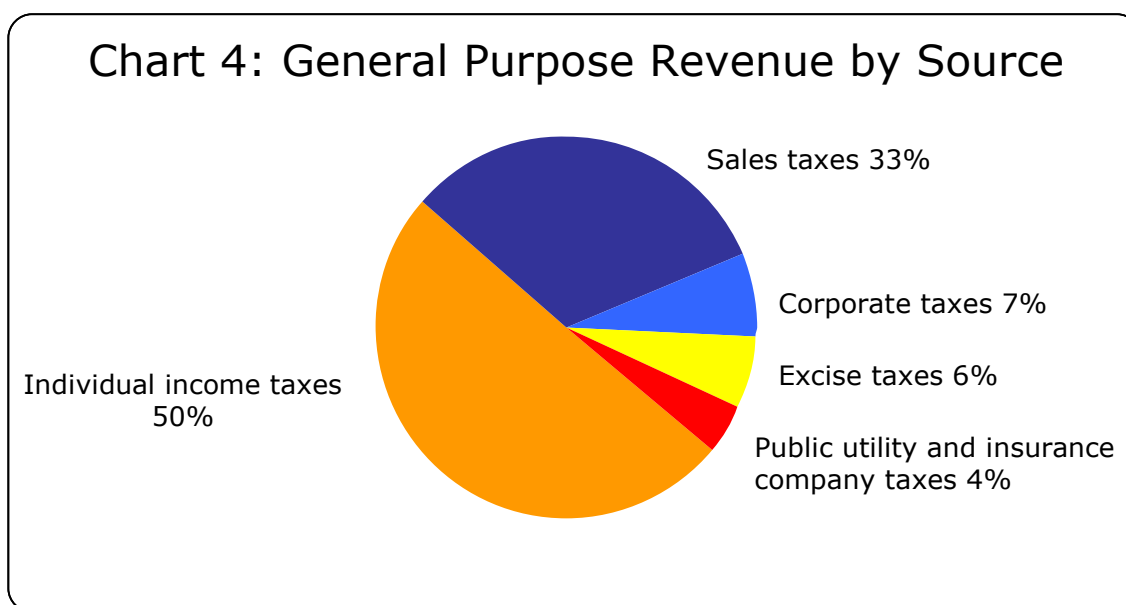
Revenue Source	Description
<p>GPR 42%</p>	<p>General Purpose Revenue (GPR) is money raised by the state mainly through taxes. In the 2009-11 budget, which included federal stimulus funds, GPR accounts for 42% of the total state budget. In a typical budget period, the share is closer to 50%. GPR is the most flexible type of funding (and therefore the most fought over) and is available for appropriation by the Legislature for any purpose.</p>
<p>Federal Revenue 28%</p>	<p>The next biggest chunk of money, about a quarter of the state budget, comes from the federal government. This money generally comes with specifications from the federal government about how it must be spent. <i>Example: Federal funds are the primary source of funding for the state's FoodShare program.</i></p>
<p>Program Revenue 13%</p>	<p>Program Revenue comprises 13% of the total state budget, and comes primarily from user fees associated with state programs. This money is usually credited to a specific appropriation that is closely tied to the source of the money. <i>Example: Tuition paid by students at the UW System is Program Revenue.</i></p>
<p>Segregated Revenue 12%</p>	<p>Segregated Revenue represents money that, by law, is kept distinct from GPR. In theory, revenues from the segregated fund may only be used for the statutorily-defined purposes of the fund, although the Legislature has bent this rule in the past. <i>Example: The Recycling Surcharge on businesses, which funds recycling programs, is a source of Segregated Revenue.</i></p>
<p>Bonding 5%</p>	<p>Bonding represents money received from the state for the issuance of bonds and deposited in the capital improvement fund for specified purposes. <i>Example: Bond revenues are used for state building, highway, and land purchases projects.</i></p>

Source: Percentages taken from dollar amounts from WI Legislative Fiscal Bureau's 2009-11 Budget Summary Information.

Wisconsin Tax Revenue

The biggest fund lawmakers can use when putting together the Wisconsin budget is called the General Fund, which contains General Purpose Revenue. As the biggest and most flexible source of funds, this is where most of the attention is focused come budget time.

GPR revenue comes almost exclusively from taxes, primarily the individual income tax and the sales tax. Most (but not all) taxes paid by Wisconsin residents go into the General Fund. Examples of taxes that are not deposited into the General Fund include the property tax, which is mostly levied and collected by local governments, and the gasoline tax, which is deposited into a segregated fund used for transportation purposes. This guide will focus on taxes deposited into the General Fund, which are shown in Chart 4.



Source: WI Department of Administration Annual Fiscal Report, FY 2010.

Revenue deposited into the General Fund includes:

- The individual income tax, which is levied on the income of individuals, is familiar to most of us. The percentage of income paid depends on the amount of income, with higher-income individuals paying a higher percentage of their income. Forty-one states have a broad-based state income tax.⁷
- The sales tax is another familiar tax. Wisconsin levies a 5% tax on most purchases, and counties have the option of adding another 0.5% to fund county operations. A few areas of the state have an additional fraction of a percent levied to fund special projects like Miller Park or the Lambeau Field renovation. Because of this, sales tax varies across the counties from 5.0% to 5.6%, but the share that goes to the state is a constant 5.0% no matter where a purchase is made. Forty-five states have a sales tax.⁸

⁷ Federation of Tax Administrators, January 2010.

⁸ Tax Foundation, February 2010.

- Excise taxes are taxes on the use or consumption of certain products. Revenue from excise taxes is mostly from taxes levied on tobacco products and to a much lesser extent on alcohol, which is why they are sometimes called “sin taxes,” though excise taxes can also be levied on other, “non-sinful” products. Excise taxes as a percentage of General Fund revenues have increased in recent years, but still make up a small percentage of the whole.
- Corporate franchise and income tax is also a relatively small source of GPR dollars. For a long time, many corporations paid little or no tax in Wisconsin due to a variety of loopholes. Many of those loopholes have been closed recently, with a modest increase in revenue likely to result.
- Public utility taxes, insurance company taxes, and a few other minor sources make up the remainder of GPR funding.

Tax Relief for Individuals

The State of Wisconsin has several tax credits that are targeted towards low-income individuals. A tax credit is a set amount of money that lowers one’s tax bill. The two main targeted tax credits for individuals are:

- The Homestead Credit, which directs property tax relief to low-income homeowners and renters. The program is sometimes referred to as a "circuit breaker" because it is intended to provide relief once property taxes exceed a taxpayer's ability to pay them.
- The Earned Income Tax Credit, which is offered at both the federal and state levels as a means of providing assistance to lower-income workers and increasing the incentive to work.

Both the Homestead Credit and the Earned Income Tax Credit are refundable, which means that the credits not only reduce the amount of taxes owed, but if they reduce the taxes owed to less than zero then the state writes a check to the taxpayer for the remaining amount of the credits.

Wisconsin Taxes: Who Pays?

A sound tax system should treat people in similar circumstances similarly, and people in different circumstances differently. That might sound obvious, but often state tax systems don’t live up to these principles. Wisconsin does a better job than many states, but there’s still room for improvement.

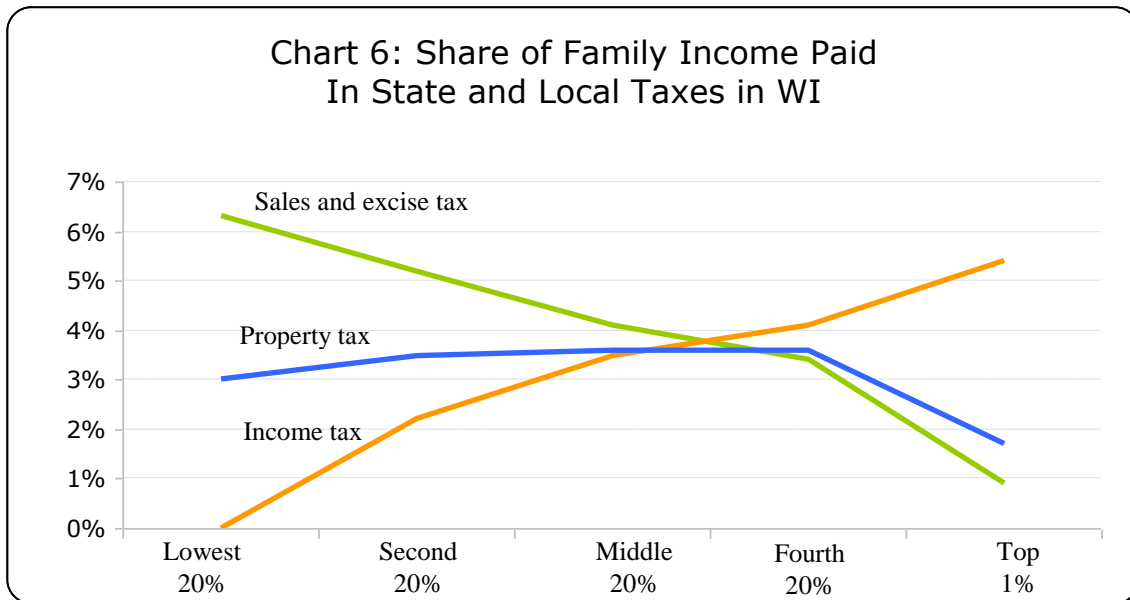
Overall, taxes in Wisconsin are regressive. This means that low and middle income people pay a higher percentage of their income in state and local taxes than higher income people do, as shown in Chart 5. For example, families in Wisconsin making less than \$20,000 a year pay 9.2% of their income in combined sales and excise, income, and property taxes, while families making \$388,000 or more pay only 6.7% of their income in those taxes.⁹

⁹ Source: *Who Pays? A Distributional Analysis of Tax Systems in All 50 States*, Institute on Taxation and Economic Policy.

Chart 5: Definitions of Progressive and Regressive Taxation

	<u>Definition</u>
Progressive taxation	People with <i>higher</i> incomes pay a larger share of their incomes in taxes.
Regressive taxation	People with <i>lower</i> incomes pay a larger share of their incomes in taxes.

Different taxes have different characteristics. Sales and excise taxes are fairly regressive, as shown in Chart 6. Income taxes tend to be progressive, since higher income people typically pay higher shares of their income. The property tax, which is predominantly a local tax, is mildly regressive. Combining several taxation methods results in a somewhat fairer system, lower rates overall, and a stable revenue source.



Source: *Who Pays? A Distributional Analysis of Tax Systems in All 50 States*, Institute on Taxation and Economic Policy. Data is from 2007.

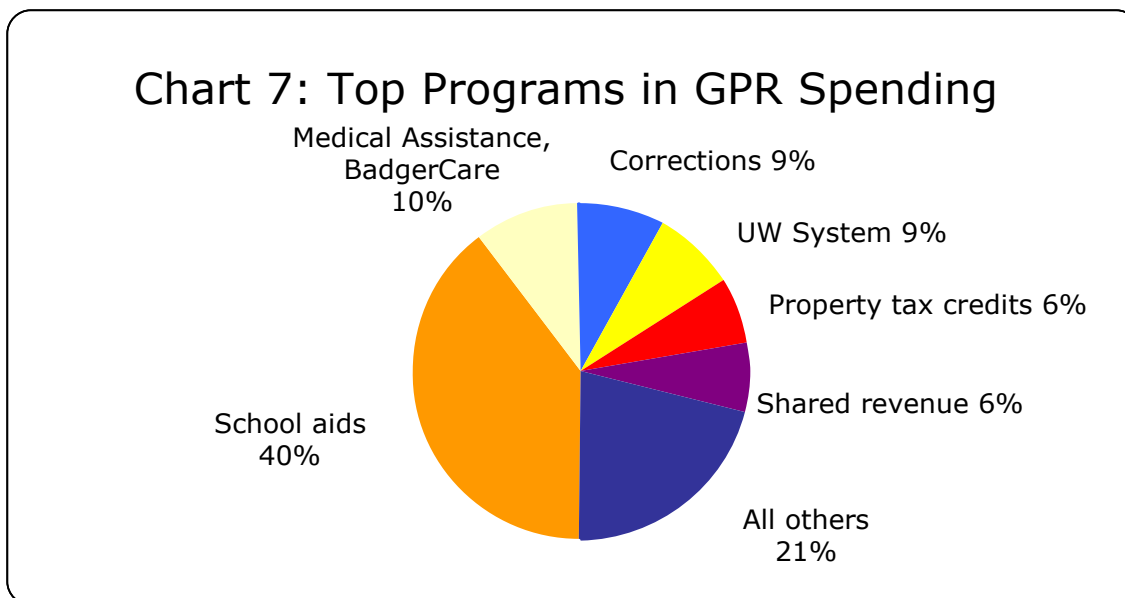
A good tax system should be understandable, stable, economically neutral, not interfere with Wisconsin’s ability to compete in national and global markets, and provide adequate revenue.

Spending

Every year, the state spends money on public services and programs such as education, social services, transportation, and economic development. This spending must be approved every two years by the Legislature and enacted by the Governor in the biennial budget. The last section of this budget guide goes into more detail on the process by which the budget is agreed upon.

Top Programs in GPR Spending

The General Fund gets the most attention of any state fund because it has the most flexibility and because it supports the general functions of state government. Other sources of revenue are earmarked for particular services and programs. Chart 7 shows the percentage of GPR spending for various state programs. It's worth noting that four main programs – school aids, the UW System, Corrections, and Medical Assistance – make up more than two-thirds of GPR spending. In this sense, much of the available money is already committed to support key programs where costs generally grow and where reducing spending is very difficult.



Source: WI Department of Administration Annual Fiscal Report for Fiscal Year 2010.

The biggest category of spending from this fund is K-12 education, which makes up 40% of the General Fund budget. Schools in Wisconsin are financed through state aid, local property taxes, federal aid, and other local revenues such as fees. In fiscal year 2010, the state covered 64% of school costs.

Medical Assistance/BadgerCare, the state corrections system, and support for the UW System each make up about 9 or 10% of GPR spending. Property tax credits, which are paid to local governments to help keep property taxes lower, and shared revenue, which represents aid to counties and municipalities, each make up 6% of GPR spending. The remaining 21% of GPR spending supports a variety of public services.

Keeping Up With Current Needs

The state budget has to increase every year just to maintain adequate funding for programs such as education and health care, with no new services added. How can this be?

There are several factors affecting spending that the state has no control over, some of which are shown in Chart 8. Factors like population growth, inflation, and an increase in health care spending mean that the state budget must grow every year just to keep providing the same

level of services. A “flat” budget with no increase in spending would in fact likely decrease assistance available to struggling families, since costs continue to increase.

Chart 8: Some Factors Causing Growth in Spending

Wisconsin’s population growth	+1% a year ¹⁰
Inflation	+3% a year ¹¹
Increase in health care spending	+5% a year ¹²

Relationship between State and Local Spending

In Wisconsin, counties, municipalities, and school districts also provide services. Counties primarily provide services in the areas of health and human services, public health, courts and jails, highways, and rural law enforcement. Cities, villages, and towns provide services in the areas of emergency services and public safety, public works, community development, building regulation, and quality of life services like libraries and parks.

The single largest funding source for local governments is tax revenue, including revenue from property taxes and a 0.5% sales tax for most counties. The next largest funding source is money from the state government. As the state reduces the aid it provides, local governments are likely to increase revenue from other sources, like property taxes and fees for public services. Local assistance made up 57% of state GPR spending in fiscal year 2010.

There are several reasons the state provides significant funding to local governments:

- Some local services are provided to residents of other communities. For example, streets in major cities serve commuters from other areas. Aid from the state helps offset these costs.
- The amount of revenue accessible to school districts varies considerably from district to district. Without funding from the state, schools in different parts of the state might be funded at very different levels. State aid helps reduce some of these differences.
- Local governments provide a wide variety of services that are required by state law. State aid helps reduce the cost of these services to local governments.¹³

Comparisons to Other States

There are many different ways to compare states based on taxes and spending. It’s best to analyze state and local revenue or spending together when determining Wisconsin’s ranking compared to other states, since certain services may be provided at the local level in one state and at the state level in another state.

¹⁰ Wisconsin Department of Administration.

¹¹ U.S. Department of Labor, Bureau of Labor Statistics.

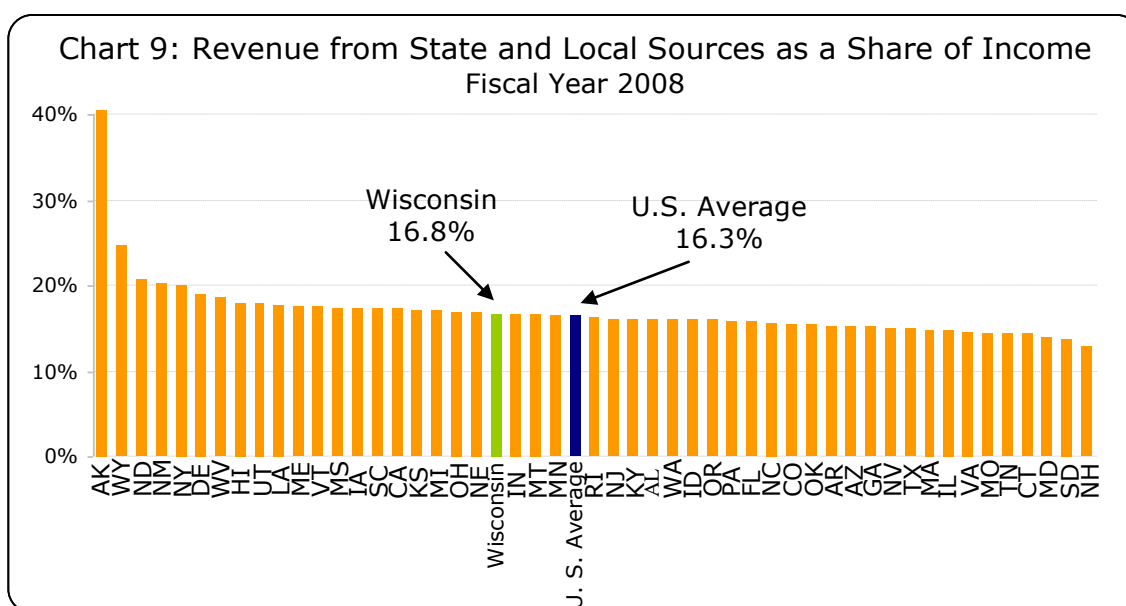
¹² *Growth in Health Care Costs*, Congressional Budget Office Testimony, Statement of Director Peter Orszag, 2008. This figure represents growth in real terms, which adjusts for the effects of inflation.

¹³ Information in this section is from *Municipal and County Finance*, Wisconsin Legislative Fiscal Bureau.

Wisconsin: Not a Tax Hell After All

One common way of looking at state and local revenues is to compare the amount of revenue raised from state and local sources across states. This includes revenue raised by the state and local governments through taxes, fees, and other sources, and does not include any revenue from the federal government. Looking at revenue from state and local sources as a percentage of income gives an indication of how extensively a state raises revenue within its borders.

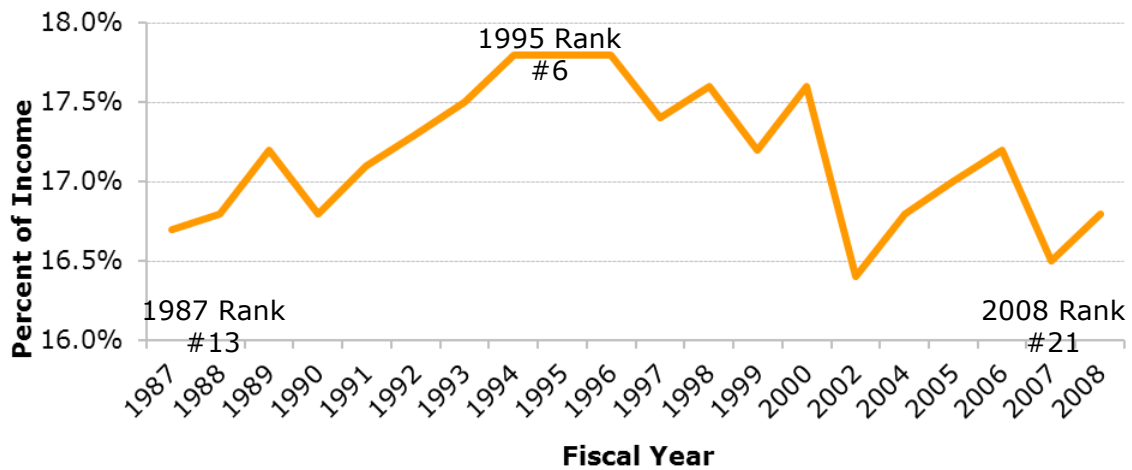
Contrary to the commonly held idea that Wisconsin is high in taxes and spending, we are close to the middle among the states. Chart 9 shows that Wisconsin's state and local revenue as a percentage of income is 16.8%, slightly above the national average of 16.3%. This means that the taxes and fees paid by Wisconsin individuals and corporations when measured as a percentage of income are slightly higher, but similar to those paid across the country.



Source: U.S. Census Bureau

Wisconsin's revenue status has changed over the years. Currently, Wisconsin state and local revenue as a share of income is tied for the third lowest it has been in 20 years. Our ranking compared to other states has fluctuated as well, as shown in Chart 10. Wisconsin ranked fairly high in the 1980s, rose to a high of sixth nationally in 1995, and has now fallen to 21st, close to the middle of the pack. At one time, Wisconsin had fairly high taxes and fees compared to income. That is no longer the case.

**Chart 10: Revenue from State and Local Sources in WI
As a Percentage of Income, With National Ranking**



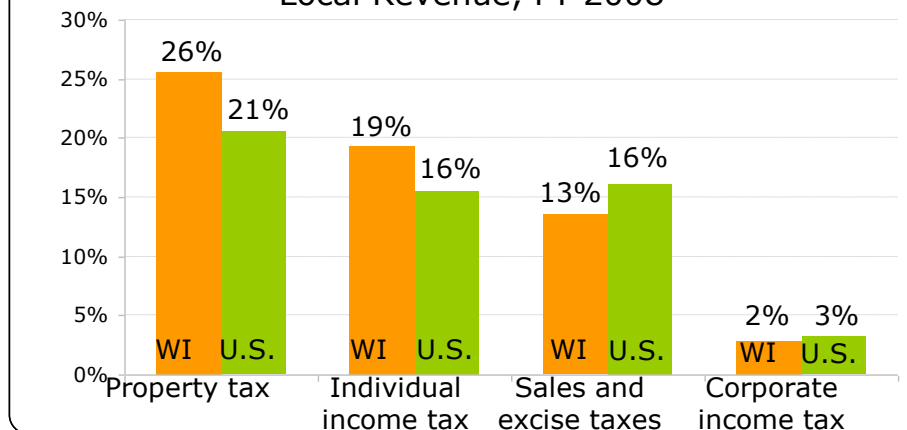
Source: Wisconsin Legislative Fiscal Bureau, U.S. Census Bureau, and Bureau of Economic Analysis.

Wisconsin has a lean public sector. In 2009, Wisconsin was 7.9 percent below the national average in the number of state and local employees per capita. Only seven states had fewer public employees, measured relative to the state’s population.

Revenue Sources Compared to Other States¹⁴

Wisconsin raises slightly more revenue as a percentage of income from state and local sources as other states, and we’re a little different in how we raise it. Compared to other states, Wisconsin gets a larger share of its revenue from the property tax and income tax, and a smaller share from sales and excise tax, and corporate income tax. Chart 11 shows these comparisons, but does not include federal revenue, which is discussed below.

Chart 11: Revenue Sources as a Percent of State and Local Revenue, FY 2008



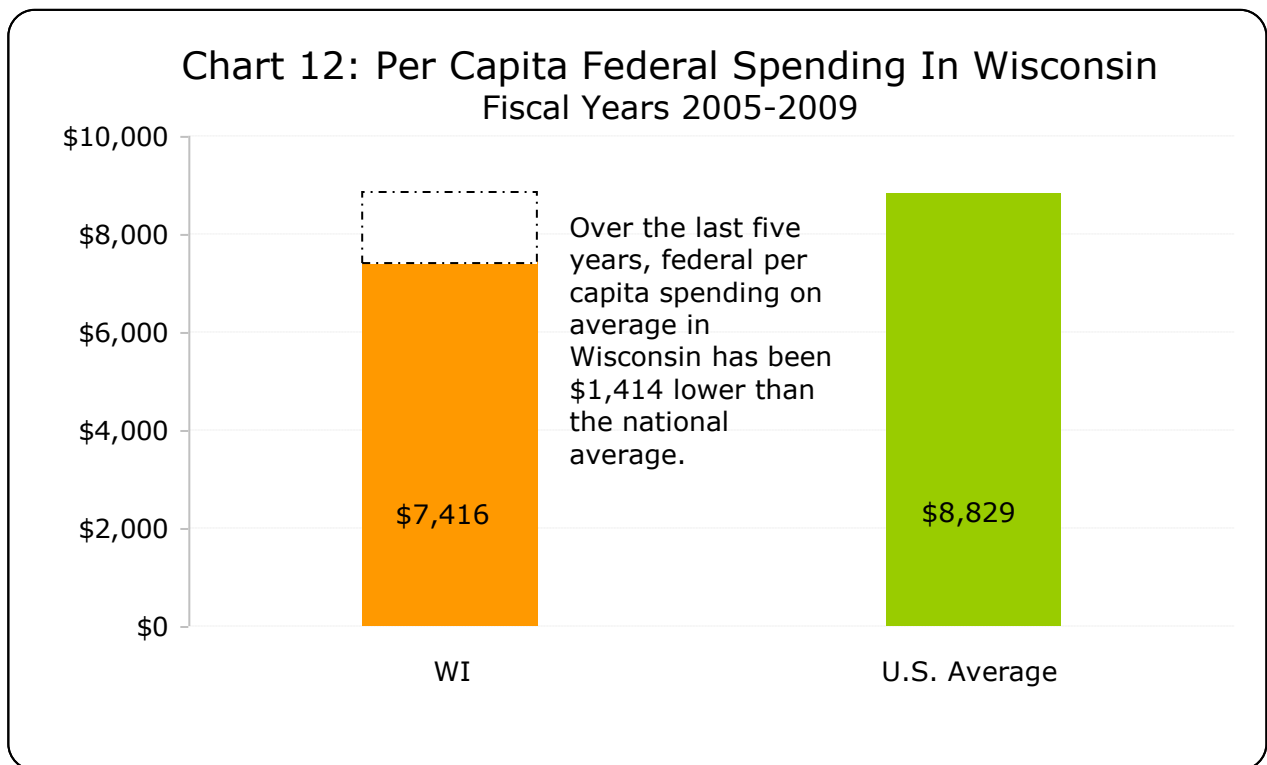
Source: U.S Census Bureau

¹⁴ U.S. Census Bureau.

Federal Spending

Wisconsin is similar to other states in the extent to which we raise revenue within the state. Where we are not similar is in the amount of federal government expenditures in our state. Federal funds flow from Washington, D.C. to states in the form of social security payments, refunded earned income tax credits, funding for food stamps, grants, procurement contracts, federal employee salaries, and other forms.

Compared to other states, Wisconsin has traditionally ranked very low in per capita federal spending. Chart 12 shows that over the last five years, Wisconsin has received on average \$7,416 per capita in federal expenditures, compared to a national average of \$8,829. If Wisconsin had achieved the national per capita average in federal spending, there would be an additional \$39 billion per year in our state's economy over the last five years. To a greater extent than most other states, Wisconsin must rely on revenue raised within our own borders to pay for community services.



Source: U.S. Census Bureau

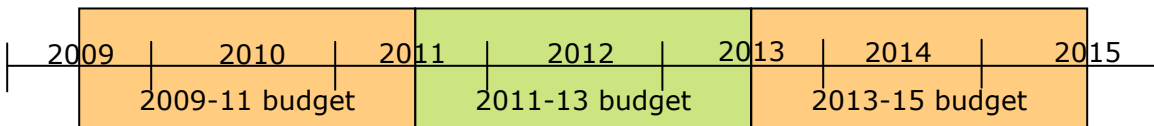
The Wisconsin Budget Process

We've seen how revenues and spending decisions affect how we are able to take care of our communities. We now turn to how those decisions are made, and who makes them.

The Biennial Budget

Wisconsin has a biennial budget. This means that the state budget usually includes information about how money will be spent for a two-year period, from July of an odd-numbered year through June of the next odd-numbered year. Chart 13 shows the budget periods for the coming years.

Chart 13: Upcoming Biennial Budget Periods



In Wisconsin, the Legislature makes most of the decisions about what should be included in the budget, with substantial input from the Governor. The Legislature and Governor, not to mention the two political parties in the Legislature, often have different priorities in terms of how to raise and spend money. This can make for contentious negotiations before the budget is finally enacted.

The state budget is the one bill that must be signed into law. No money can be expended without first being appropriated in the budget, with a few exceptions discussed in the next section. Chart 14 shows a graphical representation of the process. The entire process of developing a budget starts in the fall of even numbered years, when state agencies must submit their budget requests to the Governor. These requests are not just wish lists; usually the agencies are given guidance by the governor in terms of limiting their overall spending or promoting certain services. The Governor then uses those requests to propose a state budget, usually in about February of the odd-numbered years. The Governor outlines the highlights of his proposal in a budget address.

From there, the budget process moves over to the Legislature. Its first stop is the Joint Finance Committee, which is made up of legislators appointed by leaders in both houses of the Legislature. The Joint Finance Committee conducts a series of hearings around the state, so regular people can come and give their input on the budget. Once they've gathered information from those hearings and other sources, the Joint Finance Committee prepares its own version of the budget. That can be quite different from the Governor's proposal.

The next stop for the budget is either the full Assembly or the full Senate, which are houses of the Legislature. One house takes the Joint Finance version of the bill and allows members to propose amendments and changes and to debate their ideas on the floor. Eventually the full membership of that house votes on the entire bill. Once they pass their version of the budget, the bill moves over to the other house of the Legislature, where the whole process takes place again. If the two houses end up passing versions of the bill that are significantly different from

each other – which they often do – then a Conference Committee consisting of members from each house is usually appointed to iron out the differences between the two.

Once the Conference Committee comes up with a compromise version of the bill, it goes back to both houses for approval. No amendments or changes are allowed at this point; just a yes or no vote.

After both houses pass the budget bill, it lands on the Governor's desk. In Wisconsin, the Governor has the power to make line-item vetoes, which means he can cross out whole items, change dollar values, or delete language to make things more to his liking. The Legislature has the power to override the Governor's veto, but it takes a two-thirds vote of both houses to do so, and that rarely happens. Finally the budget is signed into law.

The budget is supposed to be finalized by July 1 of the odd-numbered year, because that's when the revenue and spending levels set by the new budget are set to go into effect. Sometimes, though, the budget process drags out longer, and it's not unusual for the budget to not be signed until the fall of an odd-numbered year. If the budget is late, revenues and spending are carried over at the level in the previous budget until the new budget is finally signed.

Interim Adjustments to the Budget

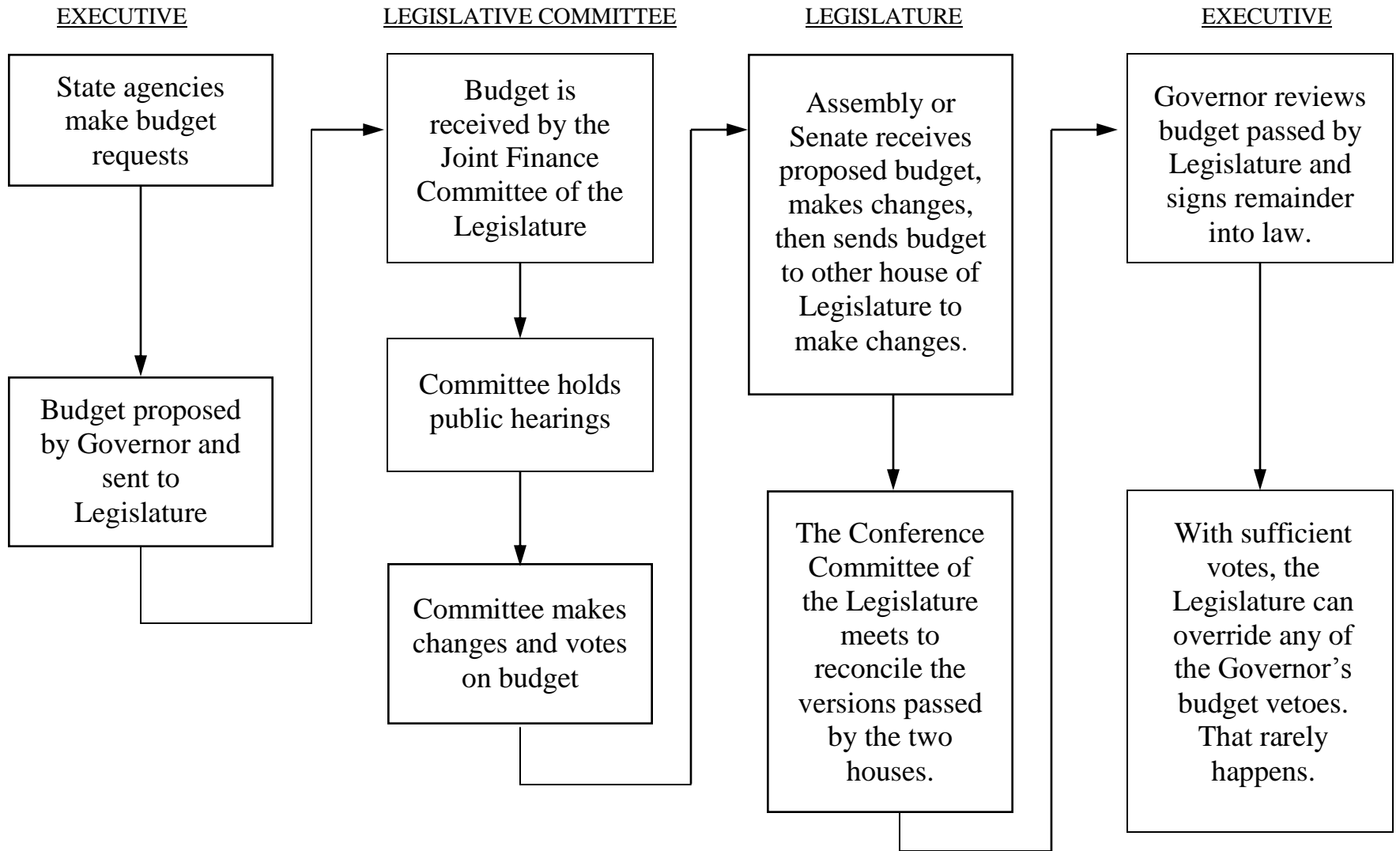
Once adopted, the Wisconsin budget provides spending authority for two years, but it can be modified during that period. There are three main ways of modifying the budget:

- (1) **Separate legislation.** The Legislature can pass bills over the course of the biennium that affect revenues or spending.
- (2) **A budget repair bill,** which may be needed if the biennial budget falls out of balance. The Governor and Legislature rely on revenue estimates when proposing the biennial budget, but if economic conditions deteriorate drastically, there may not be enough revenue to carry out planned spending.

State statutes specify that when planned spending exceeds revenue by a certain amount, a budget repair bill is needed. The Governor must submit his recommendations for handling the shortfall to the Legislature, which then passes a budget repair bill that is subject to the Governor's line-item veto. When the budget falls out of balance but does not meet the statutory requirement for a budget bill, the Governor often directs state agencies to reduce their spending, without needing approval from the Legislature.

- (3) **Changes approved by the Joint Finance Committee.** Under certain circumstances, this legislative committee may approve supplemental spending over the course of the biennium.

Chart 14: The Budget Process in Wisconsin



Nov/Dec of even-numbered year

Jan/Feb/March/April

May

June of odd-numbered year

Does Wisconsin Have a Balanced Budget?

The Wisconsin Constitution requires that the state pass a balanced budget, where estimated revenues are equal to or greater than estimated spending. By this definition, the state budget is in balance.

Even with a balanced budget, Wisconsin has a structural deficit. A structural deficit occurs when *ongoing* revenues are less than *ongoing* spending. The structural deficit represents the gap between the amount of revenue raised and the amount of money needed to continue existing programs.

There are several ways the state can find itself with a structural deficit, yet still have a balanced budget. One common way in Wisconsin is to use one-time revenues to support ongoing costs. The Governor and Legislature are well versed in this technique. For example, their budget proposals might transfer money from a segregated fund to the General Fund, or delay a payment from one year to the next year in order to keep the budget in balance. Structural deficits also grow when lawmakers adopt deferred or phased-in tax cuts that haven't been paid for.

The problem is that although some sources of revenue are one-time, spending almost never is. Even big purchases like land or buildings are spread out over many years through the use of bonding, and thus have ongoing costs. Supporting ongoing services with one-time revenue sources will work for a while, but it will lead to a structural deficit and long-term difficulties.

Wisconsin has a long history of structural deficits. We have already used up many of our one-time revenue sources and will have a harder time supporting services in the future.

How to Participate in the State Budget Process

If the way the state raises and spends money matters to you, and if you are concerned about our state's public priorities and how we support those priorities, then you may want to make your voice heard about issues related to the state budget.

There are several ways you can have an impact on the budget process:

- During gubernatorial and legislative campaigns, raise the issues you're concerned about as part of candidate forums and debates. Make sure you vote and get others to vote as well.
- While the Governor is preparing his budget proposal, contact the Governor's office to urge him to support the programs/initiatives you're most concerned about. You can also contact his office later in the budget process to voice your opinion on potential vetoes.
- The Joint Finance Committee holds hearings throughout the state on the budget. You can testify on an issue that's important to you, or submit written testimony.
- Contact your legislators to make sure they know your position on issues that are important to you.

ABOUT THIS PROJECT

This Wisconsin Budget Basics Guide is a project of the Wisconsin Budget Project and the Wisconsin Council on Children and Families. For more information about topics relevant to the state budget or about these organizations, go to www.wisconsinbudgetproject.org and wccf.org.

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